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Almonte: city pension plan at risk

By LAURA LEE COSTELLO

Cranston city employees' pension plan is 'at risk' – that's the evaluation of Rhode Island Auditor General Ernest A. Almonte.

In a report issued Monday by Almonte's office, Cranston's Police Retirement and Fire Employee Retirement System, which covers 98 active members and 407 retirees, was labeled "chronically underfunded."

The report says underfunded pension plans can cause a two-tiered problem. The primary concern is that adequate funds will be available to make benefit payments promised to retirees. Also, chronically underfunded pension plans, said the report, can have a negative impact on a community's financial health.

According to Almonte, the taxpayer will inevitably pay the price of under funding pension funds. The report says the eventual costs to fund the plan will become significantly larger and divert resources from other programs.

Former Cranston Finance Director Jerome Baron agreed with Almonte's assessment.

"Under funding the pension funds has a direct impact on the taxpayers," he said. "It's a short-term solution to a long-term budgetary issue; having an underfunded pension plan is like

"As it is, they should have made \$8 million, and now the taxpayers will have to make up that money."

Auditor General Ernest A. Almonte, talking about the city's low return on investments

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having a leaking roof."

Baron also suggested Mayor Michael Napolitano's administration is responsible for this potential problem.

"The previous administration began a program of funding the plan so the actuarially mandated contribution would decrease by about \$900,000 in 2008, decreasing the cost to the taxpayer," he said. "The new mayor under funding the pensions is a giant step backwards to destroying that plan and moves towards a 'pay-as-you-go' plan."

Former mayoral candidate Allan Fung was a vocal opponent of under funding the pension during the recent budget hearings. He said he was pleased to learn of Almonte's report.

"I'm glad the auditor general agrees with my long-standing position regarding under funding the pension fund," he said. "We have to take a long-term

view to address this situation - that's why I was so critical during this year's budgeting process. Mayor Napolitano's egregious action of under funding the pension will have a direct impact on the status of the plan and create a bigger debt in the future."

Current Finance Director Corsino Delgado disagreed, however, and said the situation was neither dire nor unique to Cranston. He called Almonte's report unsurprising and said the pension issue has been a long-standing problem for the city.

"We're very aware that we didn't meet the actuarially required contribution amount, we were short by about \$900,000," he said. "In the past the city used some of the pension fund to fill budget shortfalls and it has not been generating enough of a surplus to repay it all."

Delgado added that Napolitano's office is taking steps to make the needed funding contributions.

"When the council approved

the budget they actually added money in to fund the pension plans," he said. "We also expect to find money from other sources to fund the pension in the upcoming budget year."

In May Almonte released a report based on a financial review of Cranston, as requested by Napolitano. That review supported Napolitano's assertion that the city's financial problems were the fault of the Laffey administration. This latest report was not as generous.

The auditors recommended that locally administered pension plans such as Cranston's consider merging into the state-administered Municipal Employees' Retirement System. According to Almonte, "Local municipalities should not be in the investment business."

The report cites as an example that Cranston's annual required contribution for its police and fire pensions for fiscal year 2006 was \$21.7 million, covering 505 employees, while the MERS contribution was \$20.1 million, covering more than 14,000 employees. It at-

tributes the disparity to insufficient contributions in the past and the more-generous benefits offered to Cranston Police and Fire than to members of the state's program. Future benefits for Cranston's plan are estimated at \$430,779 per member, as opposed to \$9,272 per member for the MERS members.

Almonte went on to say Cranston has one of the two largest underfunded pension plans in the state and Cranston's fund has received the third-worst return on investments during the past five years.

"Cranston earned 1.7 percent return but they assumed in their actuary reports a return of 8 percent," he said. "Had they gone into the state-administered program they would have received a 12 percent return. As it is, they should have made \$8 million, and now the taxpayers will have to make up that money."

The auditor general's full report is available at www.oag.ri.gov.